

PUBLIC DISCLOSURE

August 4, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Liberty Bank, Inc.
Certificate Number: 26816**

**326 South 500 East
Salt Lake City, Utah 84102**

**Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite #2300
San Francisco, California 94105**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Liberty Bank, Inc. (LBI)** prepared by the **Federal Deposit Insurance Corporation (FDIC)**, the institution's supervisory agency, as of **August 4, 2014**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated ***Satisfactory***.

An institution in this category has a satisfactory record of helping to meet the credit needs of its assessment area (AA), in a manner consistent with its resources and capabilities. This rating is supported by the following factors:

- The bank's lending activity during the review period is too nominal to draw meaningful conclusions regarding the AA concentration, geographic distribution, and borrower profile of lending activity; therefore, these criteria were not rated.
- The bank's average net loan-to-deposit (LTD) ratio is reasonable given its size, financial condition, and AA credit needs.
- There have been no CRA-related complaints made against the bank since the previous CRA Performance Evaluation; therefore, examiners did not consider this criterion for this evaluation.

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

Since the previous evaluation, the bank continues to face legal and financial impediments restricting its ability to lend. Examiners noted that the overall volume of lending is low, which was affected by the bank's decreasing capital levels and its focus on improving problem assets.

DESCRIPTION OF INSTITUTION

LBI is a locally owned, state-chartered, non-member bank that services Salt Lake City, Utah and the surrounding area since 1956. It operates one office situated within a middle-income census tract (CT) near downtown Salt Lake City.

As of the June 30, 2014, Consolidated Reports of Condition and Income (Call Report), LBI had total assets of \$9.8 million, total deposits of \$8.5 million, and total loans of \$4.2 million. As depicted on Table 1 below, 1 to 4 family residential real estate loans represent an aggregate 70.8 percent of total loans, followed by commercial (commercial real estate, and commercial and industrial) at 22.5 percent of total loans. These loans have remained the bulk of the bank's loan portfolio since the previous evaluation.

Table 1 – Loan Portfolio Distribution as of June 30, 2014		
Loan Type	Dollar Volume (000)	Percentage of Total Loans
Construction and Land Development	62	1.5
Secured by Farmland	0	0.0
Revolving Open-end 1 to 4 Family Residential	302	7.2
Closed-end 1 to 4 Family Residential First Lien	2,478	59.1
Closed-end 1 to 4 Family Residential Junior Lien	190	4.5
Multi-family Residential	0	0.0
Commercial Real Estate	364	8.7
Total Real Estate Secured	3,396	81.0
Loans to Finance Agricultural Production	0	0.0
Commercial and Industrial Loans	579	13.8
Consumer Credit Cards	0	0.0
Other Consumer Revolving Loans	2	0.1
Closed-end Consumer Loans	5	0.1
Other Consumer Loans	211	5.0
Obligations of States and Political Subdivisions	0	0.0
Other Loans	0	0.0
Less: Any Unearned Income on Loans	0	0
Total Loans	4,193	100.0
<i>Source: June 30, 2014, Call Report</i>		

Loan products offered include working capital lines of credit, equipment loans, and Small Business Administration-guaranteed loans. LBI offers residential mortgage loans through third-party mortgage brokers/investors. As a member of the Federal Home Loan Bank, LBI offers qualifying homebuyers who have previously owned a home, as well as to qualifying first-time homebuyers, with down payments and/or closing costs when purchasing a home through the Home\$tart Down Payment Assistance Grant Program. The program promotes homeownership by helping homebuyers earning up to 80 percent of area median income (adjusted for family size) purchase a home.

LBI offers demand and savings products but recently focused more on advertising tiered-rate, money market account, and certificates of deposit with maturities as early as three months and as long as five years. It provides internet banking services at www.libertybankofutah.com; however, customers are limited to only accessing account balances and transferring funds. Regular business/lobby hours are from 9:00 a.m. to 5:00 p.m., Monday through Friday.

The bank's capital levels continue to decline since the previous evaluation in 2008. In 2008, LBI had \$3.0 million in capital compared to \$922,000 at year-end 2013. The sharp decline in capital corresponds with the decline in total assets from \$19.9 million in 2008 to \$9.5 million in 2013. The bank is also operating under a formal enforcement action, presenting legal and/or financial impediments, which have prohibited the bank from certain lending activities. The formal enforcement action has caused the bank to focus on improving capital levels, as well as problem assets, which also makes it difficult for LBI to originate new loans.

No CRA-related complaints were received since the prior evaluation.

DESCRIPTION OF ASSESSMENT AREA

LBI has delineated Salt Lake County as its AA. The AA is part of the Salt Lake City, UT Metropolitan Statistical Area #41620 comprised of two counties: Salt Lake and Tooele. According to the 2010 U.S. Census, the AA contains 212 CTs: 12 low-income, 41 moderate-income, 97 middle-income, 60 upper-income, and 2 with no-income designation. The population for the AA totals 1,029,655. The median housing value for homes within the AA is \$252,807, with 64.3 percent of housing units being owner-occupied.

Table 2 depicts the AA's CTs and business demographic information. According to the 2013 D&B data there were 107,481 businesses located within the AA. Of these, 70.8 percent of businesses had gross annual revenues (GARs) of \$1 million or less, 4.6 percent had GARs over a \$1 million, and 25.0 percent with no reported revenue information. The data also provides the following breakdown of businesses by CT income level: 4.7 percent in low-; 18.7 percent in moderate-; 43.0 percent in middle-; and 33.2 percent in upper-income areas. Less than 1 percent (0.4) of businesses is located in CTs with no income designation.

Table 2 – AA Demographic Information						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
CTs	212	5.7	19.3	45.8	28.3	0.9
Population by Geography	1,029,655	4.7	18.5	49.4	27.1	0.3
Owner-Occupied Housing Units by CT Income Level	229,637	2.5	14.1	51.8	31.6	0.0
Businesses by CT Income Level	107,481	4.7	18.7	43.0	33.2	0.4
Families by Income Level	236,504	18.8	18.9	22.9	39.4	0.0
Families by CT Income Level	236,504	4.2	17.3	49.7	28.8	0.0
Median Family Income (MFI) U.S. Department of Housing and Urban Development Adjusted MFI for 2013 Households Below Poverty Level		\$71,242 \$70,300 32,746	Median Housing Value		\$252,807	
Source: 2010 U.S. Census Data and 2013 D&B						

Economic Profile

According to Moody's Economy.com, the AA has continued to expand in recent months, reflecting big gains in construction and lower-paying, consumer-related industries. The labor force is strongly increasing, bringing labor force participation back toward the pre-recession rate, a contrast with the weaker national performance. This has brought the unemployment rate back to a level slightly above 4 percent. Housing growth has slowed slightly due to an expansion in construction, and an alleviation of tight supplies, which had caused prices to rise rapidly. Multi-family buildings made impressive strides in the 1st quarter of 2014 by lending total permit issuance to more than double in the last 12 months. It is predicted that the Salt Lake City area will be one of the nation's strongest performers in 2014, with rapid gains in high tech, construction, and leisure.

The AA's top 2 employers are Intermountain Health Care, Inc., and the University of Utah, with a combined employee count of over 50,000. State and local government is the leading industry, representing almost 90,000 employees.

Competition and Market Share Profile

Given the limited availability of deposit-related products offered, the June 30, 2013, deposit market share reports nil for the AA. LBI ranks 44th out of 45 of the total number of institutions within the AA. The top 4 market shareholders are very large banks, such as Morgan Stanley Bank, Goldman Sachs Bank, Ally Bank, and American Express Bank, which collectively hold 52.2 percent in deposit market share. Competition, however, is not limited to FDIC-insured financial institutions, but also with local credit unions, finance companies, mortgage companies, as well as other financial service providers for deposit and loan customers operating within the AA.

Community Contact

The purpose of a community contact is to obtain a profile of the community and identify AA credit needs and opportunities. Examiners updated an existing community contact with a non-profit community development agency that provides solutions for distressed neighborhoods within the Salt Lake City area, focusing on both housing- and small business-related needs. According to the community contact, local financial institutions are very supportive and are eager to work with the agency to find solutions by making a strong effort to solicit ways to help the housing and business needs of the community.

SCOPE OF EVALUATION

Examiners evaluated the bank's CRA performance using small bank evaluation procedures. CRA defines a small bank as one that had assets of less than \$300 million as of December 31st of either of the prior 2 calendar years. This evaluation reflects the bank's CRA performance since the previous evaluation, dated September 29, 2008, in which it received an overall Satisfactory rating.

Examiners performed this evaluation at the bank's only location near the downtown area of Salt Lake City. Examiners relied upon records and reports provided by the bank; publicly available loan and financial information; demographic data from the 2010 U.S. Census; as well as other information gathered as part of the evaluation process, which includes one community contact. Examiners also evaluated LBI's CRA performance in the context of the following facts: the current economic environment; the bank's product offerings and business strategy; the demographic characteristics of its AA; lending opportunities within its AA; information derived from community contacts; and the bank's financial resources and constraints.

As of the June 30, 2014, Call Report, residential real estate loans comprised 70.8 percent of the bank's loan portfolio, commercial loans comprised 22.5 percent, construction/land development comprised 1.5 percent, and consumer loans comprised less than 1 percent. No multi-family, farm, or credit card loans were reported. Although residential real estate loans represent a majority of loans, a significant number and dollar volume of these loans represent those that remained in the bank's books since the previous evaluation. Only four residential loans were originated since the previous evaluation, the most recent was one loan in 2012. Residential loans also represent purchased FHA Title-1 (home improvement) loans in 2012 and 2014, which totaled \$252,000. LBI also originates commercial loans targeted to small- to medium-sized businesses; however, it originated an immaterial amount during the review period. In 2013, the bank originated 7 small business loans totaling \$622,000 and 1 small business loan in 2014 totaling \$170,000.

LBI is exempt from the Home Mortgage Disclosure Act. The formal enforcement action that resulted from LBI's financial constraints precludes the bank from originating/funding residential mortgage loans. To address the mortgage lending needs of the bank's AA, as well as the surrounding counties, it offers residential purchase money and refinancing loans through a brokering agreement with several investors. In 2013, LBI brokered and closed 14 residential

mortgage loans totaling \$2.1 million, and in 2014, it closed 24 residential mortgage loans totaling \$4.0 million.

In conjunction with the Federal Home Loan Bank, the bank offers eligible homebuyers, as well as first time homebuyers, down payment and/or closing cost assistance up to \$5,000 via the Home\$tart program. In 2013 and 2014, the bank provided 7 (totaling \$35,000) and 9 (totaling \$45,000), eligible homebuyers, respectively, with Home\$tart program-related assistance.

There are no similarly situated financial institutions based on business strategy, loan portfolio composition, or financial capacity from which to draw sound comparisons. Two financial institutions with similar location and comparable asset size, however, were considered under the LTD ratio test, although minimal weight was placed on these institutions for comparison purposes.

The overall lending performance by number and dollar volume is too nominal for a meaningful analysis for the AA concentration, geographic distribution, and borrower profile criteria of the small bank lending test; therefore, these lending criteria were not analyzed.

Finally, no CRA-related complaints were noted since the previous evaluation, and therefore, this performance criterion was not evaluated as well. Refer to details under each specific criterion.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The LTD ratio is reasonable, considering seasonal variations as well as taking into account lending-related activities, given the bank's size, financial condition, and AA credit needs. The bank's average net LTD ratio for the preceding 23 quarters is 74.0 percent. During the evaluation period, the bank's LTD ratio ranged from a low of 53.0 percent on March 31, 2014, to a high of 99.9 percent on September 30, 2008, reflecting the prior favorable and the more recent less than favorable ratios, resulting from the bank's adverse financial condition.

There are no similarly situated financial institutions based on business strategy, loan portfolio composition, branching, or financial capacity from which to draw sound comparisons. Examiners nonetheless identified two institutions with comparable asset size and location. Table 3 details LBI's LTD ratio, as well as the two other institutions' ratios. LBI's LTD ratio ranks slightly higher than peer institution 1 but lower than peer institution 2. The bank's LTD ratio for the last four quarters reflects its financial lending restrictions when compared to both peer institutions.

Table 3 – Loan-to-Deposit Ratio Comparison		
Institution	Ratio Since 09/30/2008	Ratio Over Last 4 Quarters
Liberty Bank, Inc.	74.0%	54.9%
Peer Institution 1	73.6%	72.1%
Peer Institution 2	81.0%	89.1%
<i>Source: Consolidated Reports of Condition and Income</i>		

Assessment Area Concentration

Overall, LBI's lending activity during the review period is too nominal to form meaningful conclusions; therefore, this criterion was not rated. The lack of capital, described previously, significantly impacted the bank's ability to lend. The bank is also under a formal enforcement action, causing a shift in the bank's focus to improving problem assets and generating income.

LBI originated 6 of 8 loans within the AA in 2013, or approximately 75.0 percent by number and 60.9 percent by dollar volume. The only loan originated in 2014, for \$170,000, was located inside the bank's AA.

Geographic Distribution

Residential mortgage and small business lending levels in 2013 and 2014 are too nominal to form a meaningful analysis. No residential mortgage loans were originated in 2013 or 2014. A total of 5 small business loans were made in 2013 within the AA: 2 in low-income CTs totaling \$47,000; 1 loan each in a moderate-, a middle-, and an upper-income CT totaling \$20,000, \$130,000, and \$180,000, respectively. One small business loan was made in 2014, totaling \$170,000, and is located in a moderate-income CT. As a result of the bank's capital levels and nominal level of lending, no meaningful conclusions can be derived from the analysis.

Borrower Profile

As mention above, no residential mortgage loans were originated in 2013 or 2014. Small business loans originated in 2013 and 2014 were all made to small businesses. The one consumer loan originated in 2013 was made to an upper-income borrower. As a result of the nominal level of lending, no meaningful conclusions can be derived from the analysis.

Response to Complaints

No CRA-related complaints were received since the previous evaluation; therefore, this criterion was not evaluated.

Fair Lending or Other Illegal Credit Practices Review

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

GLOSSARY

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

D&B: A leading provider of business information for credit, marketing, and purchasing decisions in the U.S. and worldwide.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a census tract.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a census tract.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a census tract.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/AA.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Small loan(s) to business(es): A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.